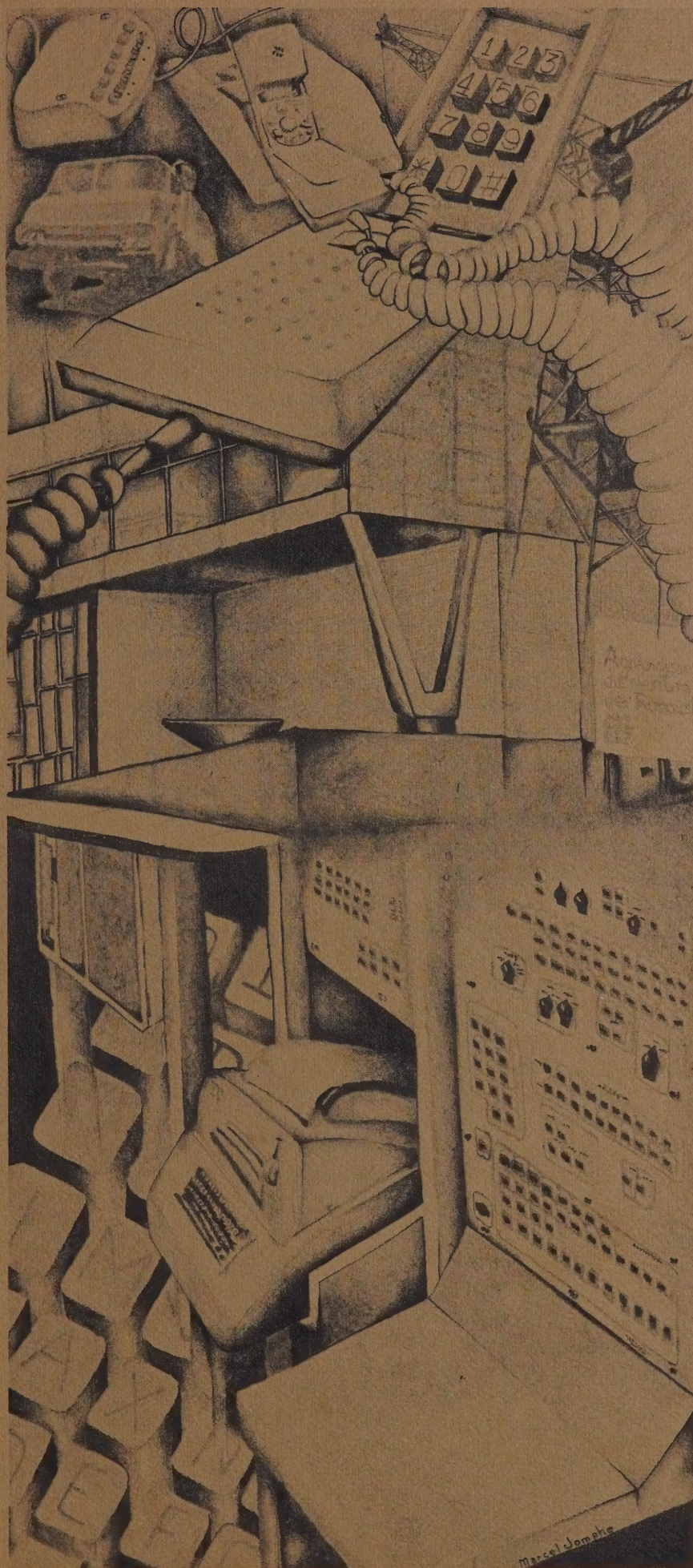




QUÉBEC-TÉLÉPHONE



Report in Brief

	1975	1974	1973	% variation	
				75/74	74/73
Financial (thousands of dollars)					
Operating revenues	\$ 56,570	\$ 47,451	\$ 42,618	19.2	11.3
Operating expenses	37,247	30,852	26,438	20.7	16.7
Salaries and benefits	24,061	17,383	15,502	38.4	12.1
Net income applicable to Common shares	5,117	4,221	4,728	21.2	(10.7)
Dividends on Common shares	3,290	3,119	2,482	5.5	25.7
Construction and other plant additions	39,750	26,526	21,042	49.9	26.1
Telephone plant, at cost ¹	236,355	201,942	178,043	17.0	13.4
Shareholder items					
Earnings per Common share	\$ 2.18	\$ 1.80	\$ 2.08	21.1	(13.4)
Declared dividends per Common share	1.40	1.33	1.09	5.3	22.0
Book value per Common share issued ¹	15.95	15.21	14.74	4.9	3.2
Other statistics					
Telephone gain for the year	19,191	7,624	13,406	151.7	(43.1)
Telephones in service ¹	217,118	197,927	190,303	9.7	4.0
Toll messages	22,121,643	19,308,509	17,867,489	14.6	8.1
Average number of Common shares	2,350,179	2,344,826	2,276,197	0.2	3.0
Number of Preferred and Common shareholders ¹	3,176	3,198	3,222	(0.7)	(0.7)
Number of employees ¹	2,055	1,956	1,952	5.1	0.2

¹ Year-end

Si vous préférez un exemplaire du
rapport en français, veuillez écrire à:
Québec-Téléphone,
Le secrétaire,
Siège social: 6, rue Saint-Jean,
Rimouski, Québec (418-723-2271)
G5L 7E4

49th Directors' Report

When government authorities announced a programme to combat inflation in the latter months of 1975, Québec-Téléphone had already implemented its second formal programme to reduce general operating expenses.

Earlier in the year, the implementation of a new Overhead Value Analysis programme led to more efficient use of our resources and reduction of overhead costs.

The challenge, therefore, was to accelerate our continuing efforts to reduce operating costs while assuring our customers the same superior quality in telephone services, at the lowest practicable cost.

The results obtained during the final quarter of 1975 are an encouraging indication for the future.

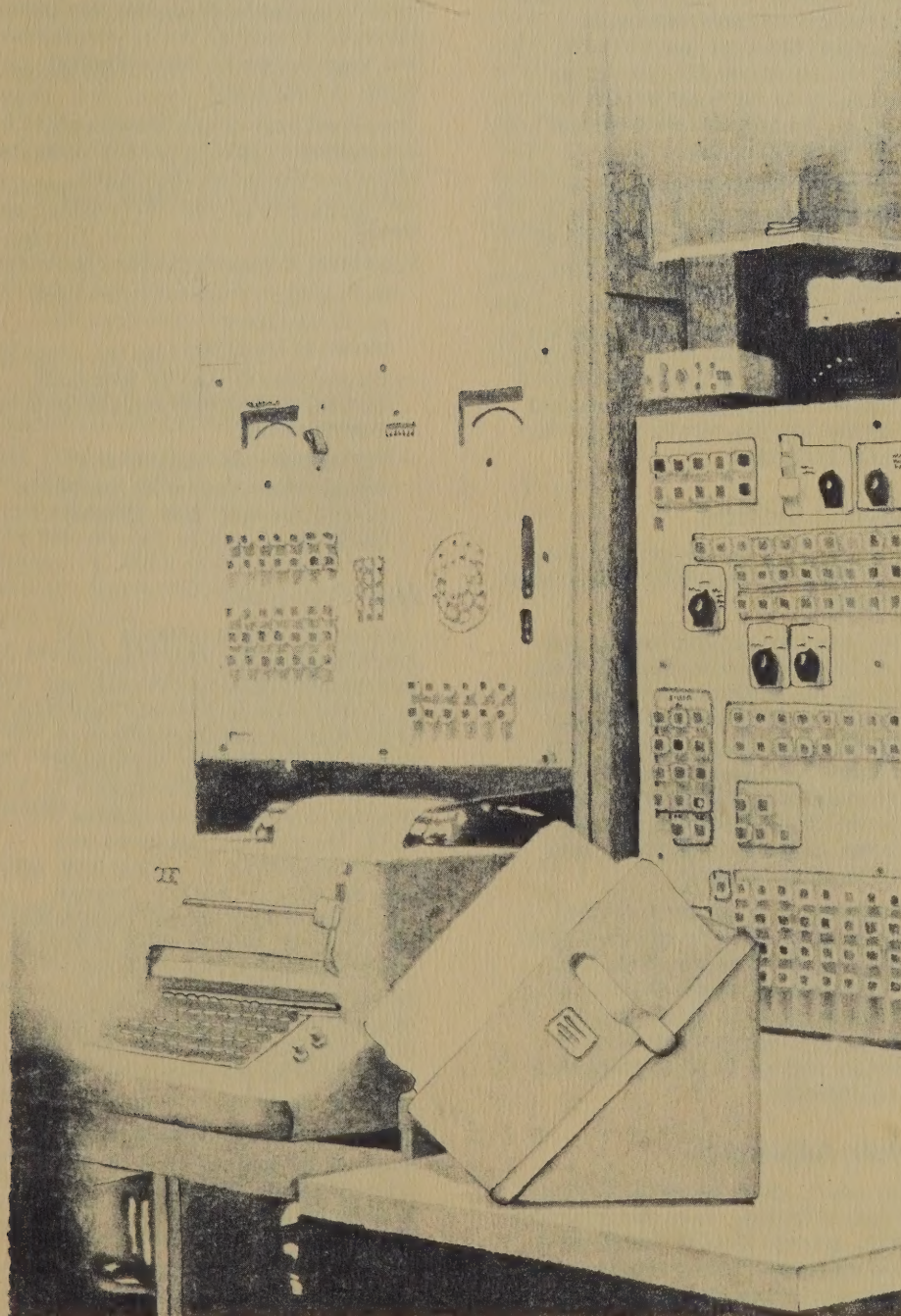
Our Growth

During 1975, Québec-Téléphone marked an important milestone by joining the ranks of telephone companies having more than 200,000 telephones in service. The number of telephones on December 31, 1975, totalled 217,118 compared with 197,927 at the same date last year. Of this number, 99.7% (98.8% in 1974) are automatic, and 98.5% (97.5% in 1974) of our subscribers are now able to dial their own long-distance calls directly. Automatic number identification on long-distance calls is now available to nearly half or 46.6% (33% in 1974) of our subscribers.

An Unprecedented Construction Programme

The year 1975 established a record for the expansion and modernization of our network. Some \$40 million was invested in new plant and equipment, bringing to \$236 million the gross investment in our telephone plant at December 31, 1975. Among the more important accomplishments during the year were:

- the purchase of new electronic long-distance switching equipment for the Rimouski central office;
- the establishment of a new microwave route between Sept-Îles and Rimouski;
- the modernization of the exchanges in Godbout, Neuville, Cap-des-Rosiers, Cloridorme, Grande-Vallée, Baie-Trinité, Blanc-Sablon, Rivière Saint-Paul and Baie-Johan-Beetz;



- the completion of the installation of new electronic switching equipment in Saint-Georges;
- the opening of two new exchanges offices in Chevery and Esprit-Saint;
- the establishment of twenty-seven extended area service links, part of our regional service programme which included Port Cartier, Clarke City, Sept-Îles and De Grasse;
- the creation of fifteen urban exchange centers;
- the inauguration of automatic number identification on long-distance calling for the subscribers of the exchanges of Donnacona, Saint-Raymond, Saint-Georges,

Gaspé, Amqui, Sainte-Anne-des-Monts and Baie-Comeau.

Cable Distribution

Community antenna television was an important part of our construction programme in 1975. The striking difference between CATV and regular telephone-type installations warrants special consideration. Throughout 1975, our work in this field enabled us to meet the requirements of the Public Service Board of Québec ruling of September 13, 1974. This ruling required us to provide the cable distribution company serving the regions of Mont-Joli and Rimouski with feeder and distribution cables necessary for the creation of its network. A total of \$1.1 million was devoted to this project.

In addition, negotiations began in 1975 with other cable distributors in our territory for the transportation of signals from distant sources for the benefit of their subscribers.

For this reason, the Company has submitted a request to obtain the permits necessary to establish such a network. This request will be studied over the next few months by Communications Canada.

Special Services

Several of our special services were the subject of important improvements in 1975.

Two new modular electronic private switchboards were introduced which provide our customers with the most modern equipment in use today. A mobile public telephone trailer was acquired and placed in service. With this equipment, telephone service can be offered quickly at sporting events, festivities, exhibitions, and in cases of emergency.

In addition, our Company devoted high priority to the development of a new customer billing system. This programme will enable the creation of a data bank for various departments, will improve customer information, and will facilitate accounting and collection.

Rate Adjustment

On July 3, 1975, the Public Service Board of Québec, in its Order number 9076, granted Québec-Téléphone a rate adjustment aimed at increasing annual revenues by 8.2%.

The same order enables the Company to increase certain parts of its general rate structure and to use a number of completely new concepts. These innovations will, over the next few years, greatly influence the management policies of telecommunications companies.

According to the ruling, the Public Service Board of Québec agrees with the necessity for a telecommunications company to generate revenues which will enable it to keep up with technological developments, and meet recognized standards of service, in order to assure a reasonable rate of return on investment and to attract and keep a qualified and motivated group of employees.

The Board's ruling also allows our subscribers to call any point in Québec at a uniform rate per minute, during the reduced-rate week-end period.

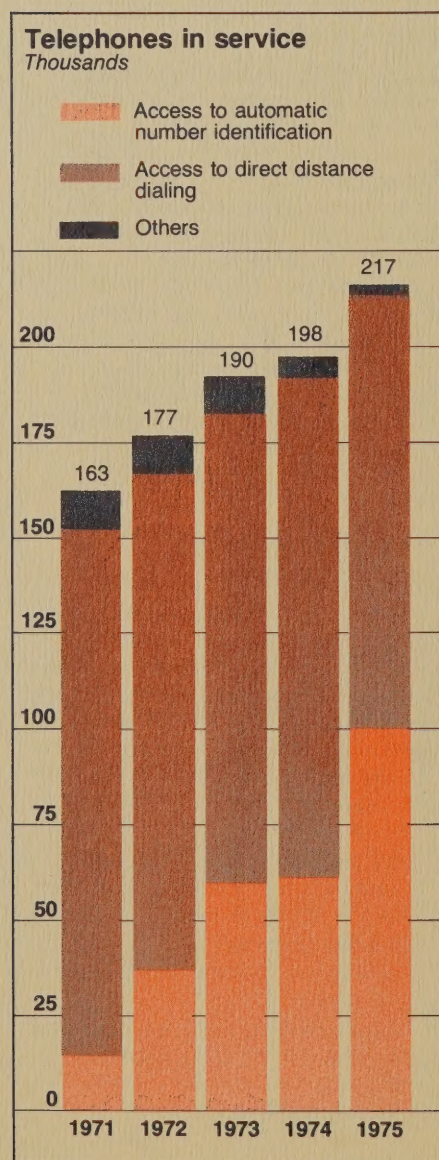
In addition, the ruling provides for:

- the creation of uniform rate tables for all companies under the jurisdiction of the Board;
- the increase in cost for local calls from public telephones to 25 cents from 10 cents;
- the reduction of the number of long-distance rate tables from three to two: "Québec" and "Outside of Québec".

Our Personnel

As concerns labour relations, 1975 was a highly active year. Two collective agreements were concluded by Québec-Téléphone with Local 2200 of the International Brotherhood of Electrical Workers. The first labour contract, involving 625 craft employees, is effective until October 10, 1976. The second, negotiated with our 325 operators, is in force until May 12, 1977. In addition, negotiations which began several months ago are continuing with the representatives of our technicians and office employees. The agreement ultimately reached by the two parties will need to be ratified by the government body responsible for supervising the application of anti-inflation measures.

During 1975, improvements were made in the administration of the Company's compensation system. In addition, a revised personnel selection policy was established in the final quarter. Under this new approach, committees responsible for selection



and promotion of management personnel in accordance with career profiles have been established for each person.

In the future, in addition to offering promotion opportunities to its personnel, Québec-Téléphone will provide the means to more easily attain superior positions.

The policy concerning financial assistance for courses taken outside the Company has been improved by providing for complete reimbursement of tuition fees for courses directly related to the employee's work.

Concerning training within the Company, these programmes continued on a regular basis in 1975, and several programmes were greatly improved.

Québec-Téléphone is convinced that the Company's continued progress depends largely on the quality of its personnel, whose development is one of the Company's foremost objectives.

Board of Directors

Our Board of Directors welcomed two new members during the year.

Mr. Charles Mercier was elected to the Board at its General Meeting of April 30, 1975, replacing James J. Clerkin who had resigned on September 18, 1974, after having served with the Board of Directors since July 21, 1966.

In addition, at its meeting on November 11, 1975, the Board nominated Mr. Charles G. Farris, replacing Mr. Basil A. Bénéteau, who left the Board on November 6, 1975. Mr. Bénéteau had served with the Board since July 21, 1966.

The Future

Since we forecast an increase of nearly 25% in the number of telephones in service over the next three years, and since we are also diversifying more and more outside the conventional telephone field, we are looking to the future with continued confidence.

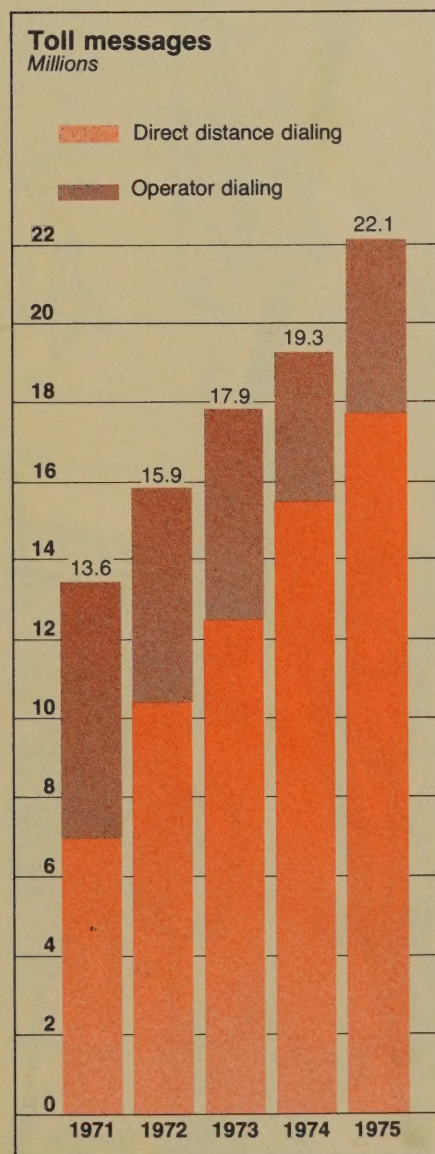
Among the important projects announced in our territory, two of them deserve particular attention since they will increase demand for the services offered by our Company.

In June 1975, the provincial government authorized the Fire Lake mining project in north eastern Québec. This

project involves an investment of \$475 million, of which \$310 million will be used for the construction, in Port Cartier, of a pellet plant and a secondary concentrator. The construction of the plant is underway and is scheduled for completion in 1977.

In August 1975, the Federal Department of Supply and Services announced that an entire division of the department would be moved to Matane. The relocalization of this division in our territory will create 250 stable jobs.

Clearly, economic indices and government policy alert us to years ahead in which caution and good management will be indispensable to our development. However, in light of the major economic investments forecast in certain parts of our territory over the next few years and the Company's ability to meet the expanding needs of our customers, we are confident that our growth will carry forward, and that we will continue to offer high-quality service at the lowest practicable cost.



Financial Review

Earnings and Dividends

For the year 1975, net income available for common shares amounted to \$5,117,194, compared with \$4,220,999 for 1974, an increase of 21.2%. Earnings per common share, which amounted to \$2.08 and \$1.80 in 1973 and 1974 respectively, rose to \$2.18 in 1975. This increase was achieved despite a greater number of preferred and common shares outstanding in 1975. Dividends of \$1.40 a share were paid, equivalent to 64.3% of net income per common share.

It should be noted that the increase in earnings per common share of \$0.38 in the year 1975 resulted, in part, from a recovery from the effects of a work stoppage on the part of the Company's unionized employees during the third and fourth quarters of 1974 and also included the benefit derived from a tariff revision authorized by the Public Service Board of Québec in July 1975.

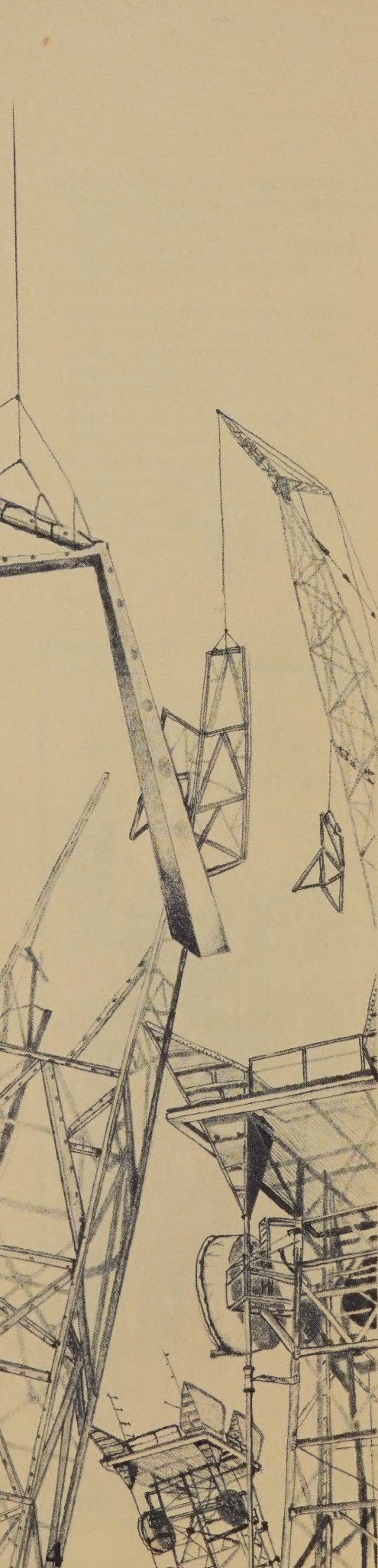
Operating Revenues

Operating revenues for 1975 totalled \$56,570,423, an increase of 19.2% over the total of \$47,450,800 for 1974. The revenues for 1975 included tariff adjustments on local and long-distance service and various types of equipment which became effective July 16, 1975. A 18.7% increase in long-distance revenues is primarily attributable to a sizeable growth in long-distance usage. The number of long-distance calls handled during 1975 was 22.1 million, a 14.6% increase over 1974. The addition of 19,191 telephones, as well as the tariff adjustment in 1975, contributed to the 20.6% increase in local service revenues over those in 1974.

Operating Expenses

Operating expenses excluding depreciation and general taxes rose 24.7% in 1975, reflecting the continuing increase in salaries and cost of material and equipment. During the year the Company conducted an Overhead Value Analysis programme aimed at identifying and evaluating the cost of the various activities of the Operations Support Staff and developing ways to reduce these costs while still maintaining the quality of customer services.

Provincial and municipal taxes and other contributions to government programmes increased by 24.6% in 1975. These various taxes, totalling \$2.7 million, represented an average yearly cost of \$12.94 for each telephone in service.



Finance

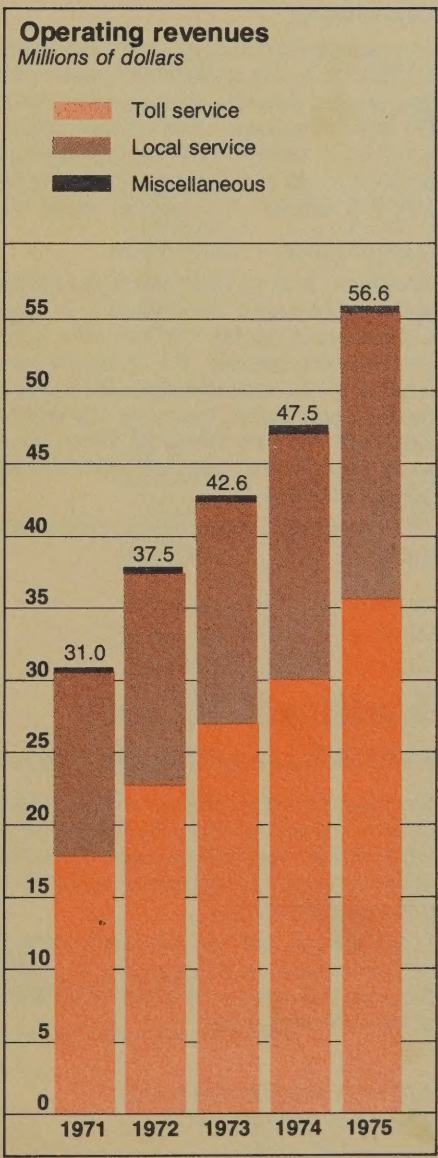
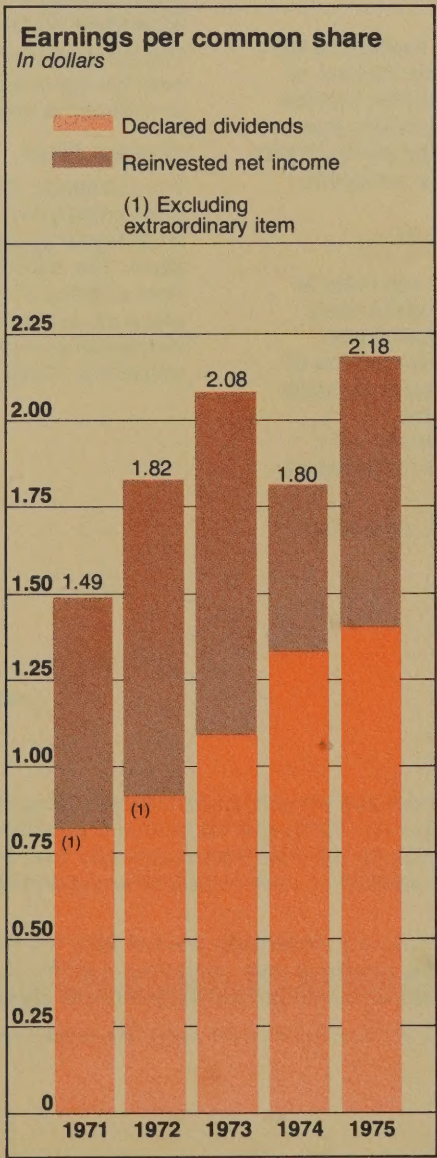
On January 6, 1975, the Company received \$10 million which was the second takedown of a private placement of 9¾% First Mortgage Bonds, Series "O" contracted for in 1974 with a group of United States financial institutions for a total of \$16.5 million (U.S.). The first portion of \$6.5 million was delivered July 2, 1974. In addition, in February 1975, the Company privately placed \$6 million of 9¾% Cumulative Preferred shares with Canadian financial institutions. On October 15, 1975, the Company issued \$15 million principal amount of First Mortgage Bonds, Series "P" with an interest rate of 11½% maturing October 15, 1995. This bond issue, reflecting the general increase in the cost of money, carries the highest interest rate in Company history.

Over the next five years, the Company will carry out capital expenditures of approximately \$182 million in order to respond to the demand throughout the territory for the most modern telecommunication services. About \$73 million will be required from external sources in order to complete this expansion and improvement programme.

Employees' Stock Purchase Plans

In order to encourage continued employee interest in Company progress and in view of the success of plans instituted in 1972 and 1974 under which Québec-Téléphone made available common shares for purchase by Company employees, the Board of Directors approved a third such plan at their meeting on February 10, 1976.

For the Board of Directors
Raymond Sirois
Chairman of the Board
February 19, 1976



Summary of Significant Accounting Policies

The following summary of significant accounting policies is included in order to facilitate the reading of the financial statements included in this report.

Principles of Consolidation

These consolidated financial statements include the financial position, results of operations and changes in financial position of Québec-Téléphone and its wholly-owned subsidiary, The Bonaventure and Gaspé Telephone Company, Limited, which is presently inactive.

1974 Financial Statements

Certain reclassifications were made to the 1974 financial statements in order to make them comparable to those of 1975.

Telephone Plant

Telephone plant is recorded at original cost and includes certain pension costs, payroll taxes and general overheads applicable to the construction activity. The Company capitalizes the cost of funds used during construction because such funds are derived from its borrowings and share capital.

Depreciation

Depreciation is provided under the straight-line method by the application to the gross book value of the various classes of depreciable property at rates based on the estimated service life and net salvage value of each class. Depreciation rates are determined by a continuing programme of engineering studies for each class of telephone plant in service. The composite rate is 5.72% for 1975 and 5.71% for 1974.

Capitalization — Short-Term

In order to finance its construction programme, and meet its debt requirements, the Company is required to obtain new capital and to permit it to time such issues of new capital most advantageously, the Company has a substantial line of credit from its bankers to provide funds on a temporary basis, pending permanent financing. For this reason, the Company believes that bank loans, short-term notes, and currently maturing long-term debt should not be classified as current liabilities.

The Company borrows sums, from time to time, on a short-

term basis from Anglo-Canadian Telephone Company at varying interest rates equivalent to the bank prime rate.

Deferred Income Taxes

Deferred income taxes and the provision for deferred income taxes result from the difference between depreciation of the telephone plant charged in the accounts and the capital cost allowance claimed for tax purposes and the deduction for tax purposes of the allowance for funds used during construction and other capitalized expenditures.

The provision for deferred income taxes for the years ended December 31, 1975 and 1974 does not include the temporary 10% federal surtax because the Company, after consulting with the Public Service Board of Québec, has been advised that this surtax will not be allowed as an element of cost when setting rates.

Deferred Charges

These charges represent purchases of material and salaries which will be distributed principally to the telephone plant in the next year.

Amortization of Discount and Expenses on Long-Term Debt

The discount and expenses on long-term debt are amortized over the life of each series of bonds and the amortization is included in interest charges.

Pension Plans

The Company maintains funded pension plans for the benefit of all employees. The Company follows the policy of having an actuarial study conducted each year of all its pension plans. The resulting surplus or deficiency, if any, is amortized over a period of five years, beginning with the year following any such study unless such surplus or deficiency is considered immaterial by management, in which case it is charged to operations in the year following any such study.

Auditors' Report

To the Shareholders of Québec-Téléphone:

We have examined the consolidated balance sheet and consolidated statement of capitalization of Québec-Téléphone (a Québec company) and subsidiary as of December 31, 1975, and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Québec-Téléphone and subsidiary as of December 31, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Consolidated Statements of Income and Retained Earnings

for the years ended December 31, 1975 and 1974

	1975	1974
Operating revenues		
Local service	\$ 19,359,607	\$ 16,057,475
Toll service	36,412,452	30,679,197
Other operating revenues	1,035,659	939,036
Uncollectible operating revenues	(237,295)	(224,908)
	56,570,423	47,450,800
Operating expenses (Note 2)		
Maintenance	9,544,075	7,361,587
Depreciation	11,113,978	9,896,176
Traffic	3,625,859	3,269,867
Customer services and marketing	3,265,608	2,464,411
Finance and treasury	2,844,871	2,394,475
Engineering	994,972	695,997
Pension and other benefits (Note 3)	1,024,737	626,382
General taxes (Note 4)	2,685,560	2,155,467
Other operating expenses	2,147,552	1,987,847
	37,247,212	30,852,209
Operating income	19,323,211	16,598,591
Miscellaneous income (Note 5)	1,252,049	706,057
Income before interest charges	20,575,260	17,304,648
Interest charges		
Interest on long-term debt	5,301,651	4,079,253
Interest on short-term notes	2,287,275	2,490,118
Amortization of discount and expenses on long-term debt	90,207	114,324
	7,679,133	6,683,695
Income before income taxes	12,896,127	10,620,953
Income taxes		
Current	1,197,169	2,097,467
Deferred	5,175,879	3,376,213
	6,373,048	5,473,680
Net income	6,523,079	5,147,273
Preferred dividends	1,405,885	926,274
Net income applicable to Common shares	5,117,194	4,220,999
Retained earnings at beginning of year	16,748,294	15,646,238
	21,865,488	19,867,237
Common dividends	3,290,250	3,118,943
Commission and expenses on sale of Preferred shares	76,300	—
	3,366,550	3,118,943
Retained earnings at end of year	\$ 18,498,938	\$ 16,748,294
Earnings per Common share*		
Before temporary 10% federal surtax payable	\$ 2.19	\$ 1.85
Temporary 10% federal surtax payable	(0.01)	(0.05)
	\$ 2.18	\$ 1.80
Dividends declared per Common share	\$ 1.40	\$ 1.33

* Earnings per Common share were calculated using the weighted quarterly average number of Common shares outstanding.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

December 31, 1975 and 1974

Assets

	1975	1974
Telephone plant, at cost (Note 8)	\$236,355,456	\$201,941,572
Accumulated depreciation	(49,654,831)	(43,552,278)
	186,700,625	158,389,294
Current assets		
Cash	420,011	21,527
Receivables	10,006,056	7,176,658
Material and supplies, at average cost	6,389,637	6,035,141
Prepaid expenses	334,255	361,949
Income taxes receivable	1,107,128	445,732
	18,257,087	14,041,007
Other assets		
Investment in Common shares of Telesat Canada, at cost	600,000	600,000
Unamortized discount and expenses on long-term debt	1,258,672	909,554
Deferred charges	192,917	312,535
	2,051,589	1,822,089
Total assets	\$207,009,301	\$174,252,390

Capitalization and Liabilities

	1975	1974
Capitalization (per accompanying statements)		
Long-term		
Common share equity	\$ 37,551,273	\$ 35,688,929
Subordinate Preferred shares	27,090	27,090
Preferred shares	20,695,679	15,502,391
Long-term debt	74,939,349	51,367,955
	133,213,391	102,586,365
Short-term	30,023,890	35,379,378
Total capitalization	163,237,281	137,965,743
Current liabilities (excluding short-term capitalization)		
Accounts payable		
Affiliates	849,406	957,102
Other suppliers	3,524,597	2,621,825
Advance billings and subscriber deposits	1,190,812	1,077,692
Dividends payable	1,196,125	1,050,281
Interest and other accrued liabilities	5,756,798	4,523,884
	12,517,738	10,230,784
Deferred income taxes	31,254,282	26,055,863
Total capitalization and liabilities	\$207,009,301	\$174,252,390

Signed on behalf of the Board:

Raymond Sirois, Director

Julien Thuot, Director

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statements of Capitalization

December 31, 1975 and 1974

	Authorized	Outstanding 1975	1975	1974
Capitalization — Long-term				
Common share equity (Note 1)				
Common shares without nominal or par value	5,000,000	2,353,949	\$ 19,052,335	\$ 18,940,635
Retained earnings (see accompanying statements)			18,498,938	16,748,294
			37,551,273	35,688,929
			28%	35%
Subordinate Preferred shares of the par value of \$15 each (Note 2)				
6.20% Cumulative Redeemable Convertible Subordinate Preferred shares, Series A	523,042	1,806	27,090	27,090
			—%	—%
Cumulative Redeemable Preferred shares of the par value of \$20 each (Note 3)				
5%, 1955 series (sinking fund)	1,743,579	1,066,898	1,086,840	1,098,300
5%, 1956 series (sinking fund)			623,120	626,820
4¾%, 1965 series			8,000,000	8,000,000
7¾%, 1973 series			5,628,000	5,780,000
9¾%, 1975 series (sinking fund)			6,000,000	—
Current sinking fund payments			(642,281)	(2,729)
			20,695,679	15,502,391
			16%	15%
		Issued (thousands of dollars)		
Long-term debt (Note 4)				
First Mortgage Bonds				
5½% Series F, due December 1, 1984		\$ 3,000 (U.S.)	2,659,459	2,708,105
5½% Series G, due October 15, 1982		5,000	3,800,000	3,875,000
5½% Series H, due June 1, 1987		6,000	4,740,000	4,830,000
6% Series I, due October 15, 1990		5,000	4,925,000	5,000,000
7% Series J, due January 2, 1989		5,000	5,000,000	5,000,000
9½% Series L, due April 15, 1991		7,500	439,040	448,000
8¾% Series M, due May 15, 1992		7,500	7,500,000	7,500,000
8½% Series N, due March 15, 1993		8,500	8,500,000	8,500,000
9¾% Series O, due July 1, 1994		16,500 (U.S.)	15,920,850	6,271,850
11⅞% Series P, due October 15, 1995		15,000	15,000,000	—
			68,484,349	44,132,955
General Mortgage Bonds				
5% Series B, due October 1, 1976		1,000	—	675,000
6% Series C, due November 1, 1977		3,000	2,430,000	2,460,000
5¾% Series D, due April 1, 1983		5,000	4,025,000	4,100,000
			6,455,000	7,235,000
			74,939,349	51,367,955
			56%	50%
Total capitalization — Long-term			133,213,391	102,586,365
			100%	100%
Capitalization — Short-term				
Cumulative Redeemable Preferred shares				
Current sinking fund payments			642,281	2,729
Sinking fund payments and currently maturing long-term debt (Note 4)				
Sinking fund payments				
First Mortgage Bonds			261,609	162,649
General Mortgage Bonds			45,000	62,000
			306,609	224,649
Current maturities				
First Mortgage Bonds, 9½% Series L			—	7,052,000
General Mortgage Bonds, 5% Series B			675,000	—
			675,000	7,052,000
Subordinated note — parent company (Note 5)			8,000,000	8,000,000
Short-term notes (Note 6)			20,400,000	20,100,000
Total capitalization — Short-term			30,023,890	35,379,378
Total capitalization			\$163,237,281	\$137,965,743

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Notes to Consolidated Statements of Capitalization

1. Common Share Equity

- a) As at December 31, 1975, 1,806 Common shares were reserved for conversion at the option of the holders of 1,806 6.20% Cumulative Redeemable Subordinate Preferred shares, Series A. No shares were converted in 1975 (36,215 in 1974).
- b) As at the same date, 90,678 Common shares were reserved for issuance under the Employees' Stock Purchase Plan. In 1975, 7,578 shares were issued under the plan (15,458 in 1974).

2. Subordinate Preferred Shares

The 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares, Series A, are convertible at the option of the holders thereof at anytime on or before January 31, 1979, in exchange for one Common share of the Company with payment to the Company of \$2.00 for each share so converted.

3. Preferred Shares

- a) In 1975, 300,000 9¼% Cumulative Redeemable Preferred shares, Series 1975, of the par value of \$20 each were issued for cash. Beginning March 1, 1976, the Company will have to redeem each year 30,000 shares of this series at their par value.
- b) At the time of the issue of the 7¼% Cumulative Redeemable Preferred shares, Series 1973, 300,000 shares were issued at a par value of \$20 each. Since August 1, 1973, in accordance with the terms of this issue, the Company is making all reasonable efforts to redeem each year 9,000 shares at a price not exceeding \$20. In 1975, 7,600 shares were redeemed (11,000 in 1974). Beginning August 1, 1982, the Company will be able to redeem at a premium all or a portion of the shares then outstanding.
- c) During the year, 758 5% Cumulative Sinking Fund Redeemable Preferred shares were redeemed (5,068 in 1974); in order to meet the sinking fund requirements for the 1955 and 1956 Series, payments for the next five years will be as follows: \$42,281 in 1976 and \$50,000 in 1977, 1978, 1979 and 1980.

4. Long-term Debt

In 1974, the Company agreed to issue \$16,500,000 (U.S.) First Mortgage Bonds, 9¼% Series O, due July 1, 1994. The Company issued for cash \$6,500,000 (U.S.) (\$6,271,850) on July 2, 1974, and \$10,000,000 (U.S.) (\$9,649,000) on January 6, 1975.

On October 15, 1975, the Company issued \$15,000,000 First Mortgage Bonds, 11½% Series P, due October 15, 1995.

The Trust Deeds of the Company require the use of a sinking fund or the pledge of additional unmortgaged property for each of the series as follows:

- a) Series F, G and H, First Mortgage and Series D, General Mortgage:
Annual payment of 1½% of the nominal value of the bonds issued.
- b) Series I, First Mortgage:
Commencing in 1976, annual payment of 1½% of the nominal value of the bonds issued.
- c) Series J, M, N and O, First Mortgage:
Annual payment of 1% or additional mortgage of 1½% of the nominal value of the bonds issued. The Company's policy is to use the latter alternative.
- d) Series L, First Mortgage:
On April 15, 1975, the Company reimbursed \$7,052,000 to the bondholders who elected prepayment of such amount on October 15, 1974. Commencing in 1976, the Company will have to make payments of 2% of the nominal value of the bonds then outstanding.
- e) Series P, First Mortgage:
Commencing in 1976, annual payment of 1% or additional mortgage of 1½% of the nominal value of the bonds issued.
- f) Series C, General Mortgage:
Annual payment of 1% of the nominal value of the bonds issued.

To meet the sinking fund requirements and the debt retirement the following payments will have to be made during the next five years:

Years ending December 31	Requirements	
	Sinking fund payments	Debt retirement
1976	\$306,609	\$ 675,000
1977	372,609	2,430,000
1978	372,609	—
1979	372,609	—
1980	372,609	—

At the rate of exchange prevailing as at December 31, 1975, the amounts of \$2,659,459 for Series F and \$15,920,850 for Series O payable in U.S. dollars represent \$2,533,807 and \$16,689,750, respectively.

Bonds of all series are secured equally and rateably under a fixed and specific mortgage, pledge, charge, cession and transfer of/ and on all immovable property, such as buildings, equipment, telephone lines and apparatus, rights-of-way and similar rights and a floating charge on all other assets.

The security provided for the General Mortgage Bonds is similar but subordinated to that provided for the First Mortgage Bonds.

5. Subordinated Note — Parent Company

The subordinated note maturing September 5, 1977, bears interest at the bank prime rate and is payable to Anglo-Canadian Telephone Company.

6. Short-term Notes

These notes bear interest at rates ranging from the bank prime rate to that rate plus 0.5%.

	1975 (thousands of dollars)	1974
Bank	\$11,400	\$20,100
Anglo-Canadian Telephone Company	9,000	—

The average interest rate on such notes was 9.48% in 1975 (10.87% in 1974).

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1975 and 1974

	1975	1974
Source of Funds		
From operations		
Net income	\$ 6,523,079	\$ 5,147,273
Add expenses not requiring cash outlay		
Depreciation	11,113,978	9,896,176
Deferred income taxes	5,198,419	3,373,182
Other expenses	534,141	344,181
	23,369,617	18,760,812
Proceeds from sale of First Mortgage Redeemable Sinking Fund Bonds		
9¾%, Series O	9,638,311	6,097,346
11⅞%, Series P	14,571,364	—
Issue and sale of Common shares to employees	111,700	84,964
Proceeds from sale of 9¾%, Cumulative Redeemable Preferred shares, Series 1975	5,923,700	—
Increase in short-term notes	300,000	7,700,000
	\$53,914,692	\$32,643,122
Use of Funds		
Construction		
Gross plant additions	\$41,341,661	\$27,771,421
Additions not requiring cash outlay	(1,592,036)	(1,245,348)
	39,749,625	26,526,073
Dividends on Preferred, Subordinate Preferred and Common shares	4,696,135	4,045,217
Redemption of long-term debt	7,372,646	285,151
Redemption of Preferred shares	167,160	321,360
Net change in current assets and current liabilities	1,929,126	1,465,321
	\$53,914,692	\$32,643,122

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. Construction Programme

The cost of the Company's programme for improvements and construction of new plant and facilities in 1976, as now planned, is estimated at \$33 million, including the cost of material and equipment that will be re-used; purchase commitments amounting to approximately \$2.6 million have been made in connection therewith.

2. Operating Expenses

Traffic expenses represent mainly costs incurred in handling telephone calls (principally operators' wages); customer services and marketing expenses represent advertising, cost of directories and costs incurred in business relations with customers; finance and treasury expenses include accounting, data processing, budget and security expenses; engineering expenses represent principally costs incurred in planning for telephone plant additions.

3. Pension Plans

Cost of pension plans incurred was as follows:

	1975	1974
	(thousands of dollars)	(thousands of dollars)
Current service	\$520	\$360
Experience deficiency	161	124
Past service	184	114
	\$865	\$598

The experience deficiency is based upon an actuarial study conducted in August, 1975 for the year ended December 31, 1974. The estimated deficiency was \$1,207,000 and is being amortized over a five year period commencing with 1975. Based upon the same study, the estimated liability for past service costs was \$2,010,000 as of December 31, 1975 and is being amortized, together with interest thereon, over a fifteen year period commencing with 1976. Pension plan payments were \$1,112,000 in 1975 and \$625,000 in 1974.

4. General Taxes

General taxes were as follows:

	1975	1974
	(thousands of dollars)	(thousands of dollars)
Tax on Capital	\$ 325	\$ 244
Education tax	542	407
Telephone plant real estate tax	1,030	871
Other real estate tax	259	212
Payroll taxes	715	515
Other taxes	40	37
	2,911	2,286
Less:		
Portion capitalized	225	131
	\$2,686	\$2,155

5. Miscellaneous Income

This account includes, among other things, an allocation for the cost of funds used during construction. During the year such funds were capitalized at 10% (9% in 1974) totalling \$891,400 (\$509,400 in 1974) and credited to miscellaneous income.

6. Remuneration of Directors and Senior Officers

The total direct remuneration of the directors and senior officers was \$269,400 in 1975 (\$270,500 in 1974).

7. Long-term Leases

The Company has no material contingent liability with respect to long-term leases.

8. Telephone Plant

The telephone plant was made up as follows as of December 31:

	1975	1974
	(thousands of dollars)	(thousands of dollars)
Buildings	\$ 21,223	\$ 17,184
Switching equipment	94,166	79,832
Subscribers equipment	39,192	33,458
Outside plant	61,102	54,721
Others	7,067	6,274
Depreciable telephone plant	222,750	191,469
Land	978	961
Plant under construction	12,627	9,512
	\$236,355	\$201,942

9. Pending Legal Proceedings

Joint use of poles by utilities is normal practice to avoid their proliferation on public highways. Joint use agreements of the Company for poles were terminated by Hydro-Québec upon their expiry. Renewals were proposed by Hydro-Québec but with an increase in rentals unacceptable to the Company. Hydro-Québec has applied to the Electricity and Gas Board of Québec on September 14, 1972 for an Order fixing reciprocal joint use rentals as proposed. Public hearings were held in 1974; the case is still pending with the Board, since legal proceedings are not yet terminated. Such an Order, if granted, would not have a material adverse effect on the financial position of the Company.

10. Act Respecting Anti-inflation Measures

The Company is subject to the Act respecting anti-inflation measures adopted by the National Assembly of Québec in December, 1975. Although the regulations establishing guidelines under the Act have not yet been issued, management is of the opinion that the Company is in compliance with the Act.

Five years of progress

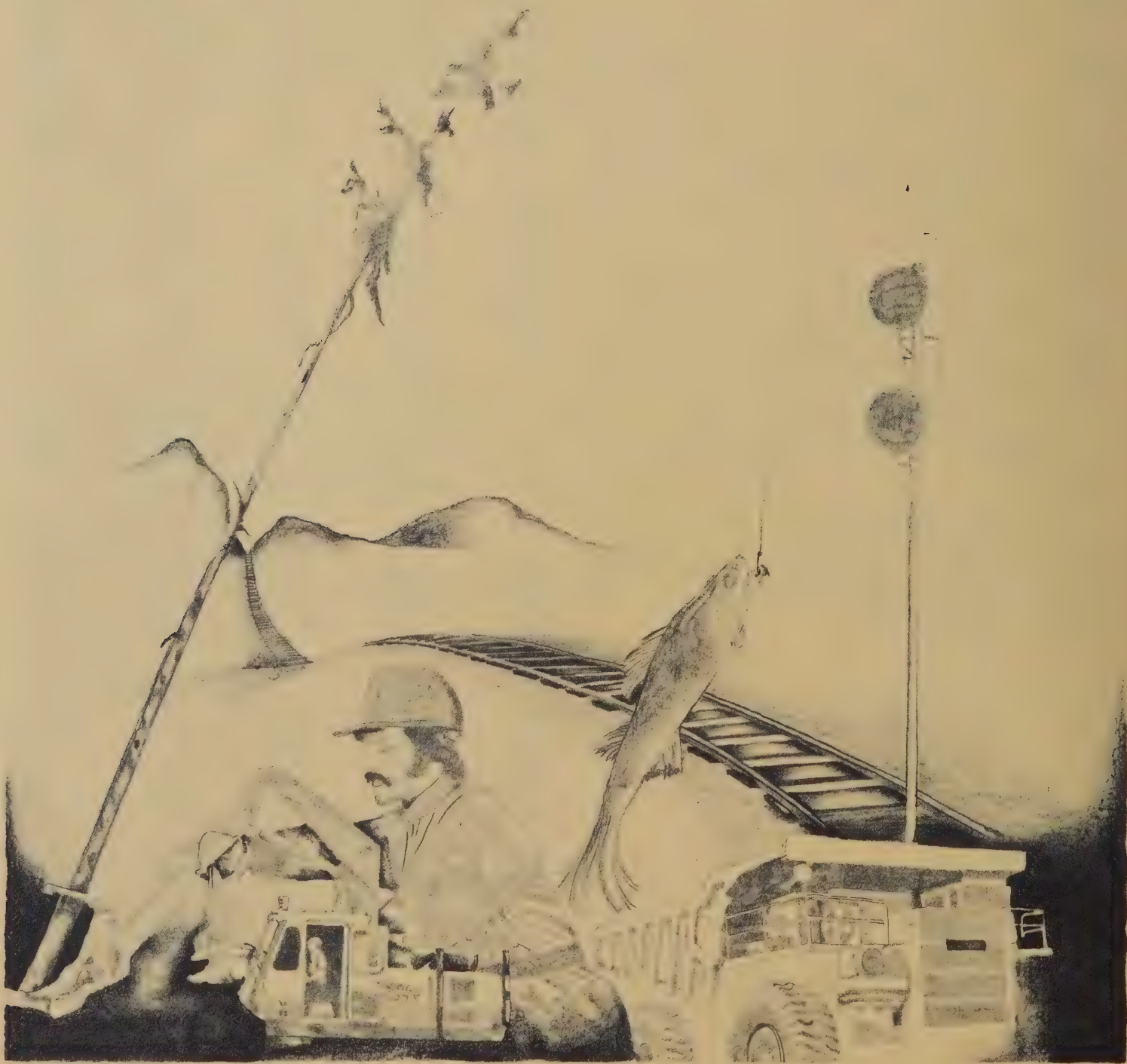
	1975	1974	1973	1972	1971
Selected income items (thousands of dollars)					
Operating revenues	\$ 56,570	\$ 47,451	\$ 42,618	\$ 37,484	\$ 30,954
Operating expenses	37,247	30,852	26,438	24,001	19,277
Operating expenses (excluding depreciation and general taxes)	23,448	18,801	15,769	15,245	11,679
Depreciation of telephone plant	11,114	9,896	9,004	7,422	6,541
General taxes	2,685	2,155	1,665	1,334	1,057
Interest charges	7,679	6,684	5,364	4,888	4,680
Income taxes	6,373	5,474	5,817	4,385	3,723
Net income	6,523	5,147	5,449	4,531 ¹	3,649 ¹
Dividends on Preferred shares	1,406	926	720	642	747
Net income applicable to Common shares	5,117	4,221	4,729	3,889 ¹	2,902 ¹
Dividends on Common shares	3,290	3,119	2,482	1,967	1,593
Reinvested net income	1,827	1,102	2,247	1,922 ¹	1,309 ¹
Selected balance sheet items (thousands of dollars)					
Telephone plant, at cost	\$ 236,355	\$ 201,942	\$ 178,043	\$ 161,106	\$ 147,756
Accumulated depreciation	49,655	43,552	36,011	30,786	26,531
Capitalization	163,237	137,966	123,287	111,148	106,435
Common share equity	37,551	35,689	33,959	31,292	25,667
Preferred shares	20,723	15,529	16,375	10,865	14,249
Long-term debt	74,939	51,368	52,553	52,891	44,719
Subordinated note	8,000	8,000	8,000	8,000	10,000
Demand notes and other short-term capitalization	22,024	27,380	12,400	8,100	11,800
Telephone service facts					
Telephones in service ²	217,118	197,927	190,303	176,897	163,226
Per cent dial	99.7%	98.8%	98.2%	97.9%	97.7%
Per cent D.D.D.	98.5%	97.5%	95.1%	94.7%	94.2%
Toll messages	22,121,643	19,308,509	17,867,489	15,885,698	13,654,451
Other statistics (thousands of dollars)					
Number of employees ²	2,055	1,956	1,952	1,758	1,648
Salaries and benefits	\$ 24,061	\$ 17,383	\$ 15,502	\$ 14,264	\$ 11,722
Construction and other plant additions	\$ 39,750	\$ 26,526	\$ 21,042	\$ 16,728	\$ 14,731
Average number of Common shares	2,350,179	2,344,826	2,276,197	2,141,973	1,947,700
Ratios and percentages					
Earnings per Common share	\$ 2.18	\$ 1.80	\$ 2.08	\$ 1.82 ¹	\$ 1.49 ¹
Declared dividends per Common share	\$ 1.40	\$ 1.33	\$ 1.09	\$ 0.91½	\$ 0.81¼
Per cent net income applicable to Common shares paid in dividends	64.3%	73.9%	52.5%	50.6% ¹	54.9% ¹
Plant investment per telephone ²	\$ 1,088.60	\$ 1,020.29	\$ 935.57	\$ 910.73	\$ 905.22
Interest in per cent of average debt	8.6%	8.6%	7.7%	7.2%	7.1%
Per cent return on average invested capital	9.7%	9.2%	9.3%	8.7%	8.2%
Average invested capital ³	\$ 146,315	\$ 129,041	\$ 115,491	\$ 108,510	\$ 103,856
Value of Common shares issued					
Book value ²	\$ 15.95	\$ 15.21	\$ 14.74	\$ 13.87	\$ 12.63
Market value (high-low) ⁴	\$ 17½-13½	\$ 17½-13½	\$ 19-15½	\$ 18-14¼	\$ 15¼-12½

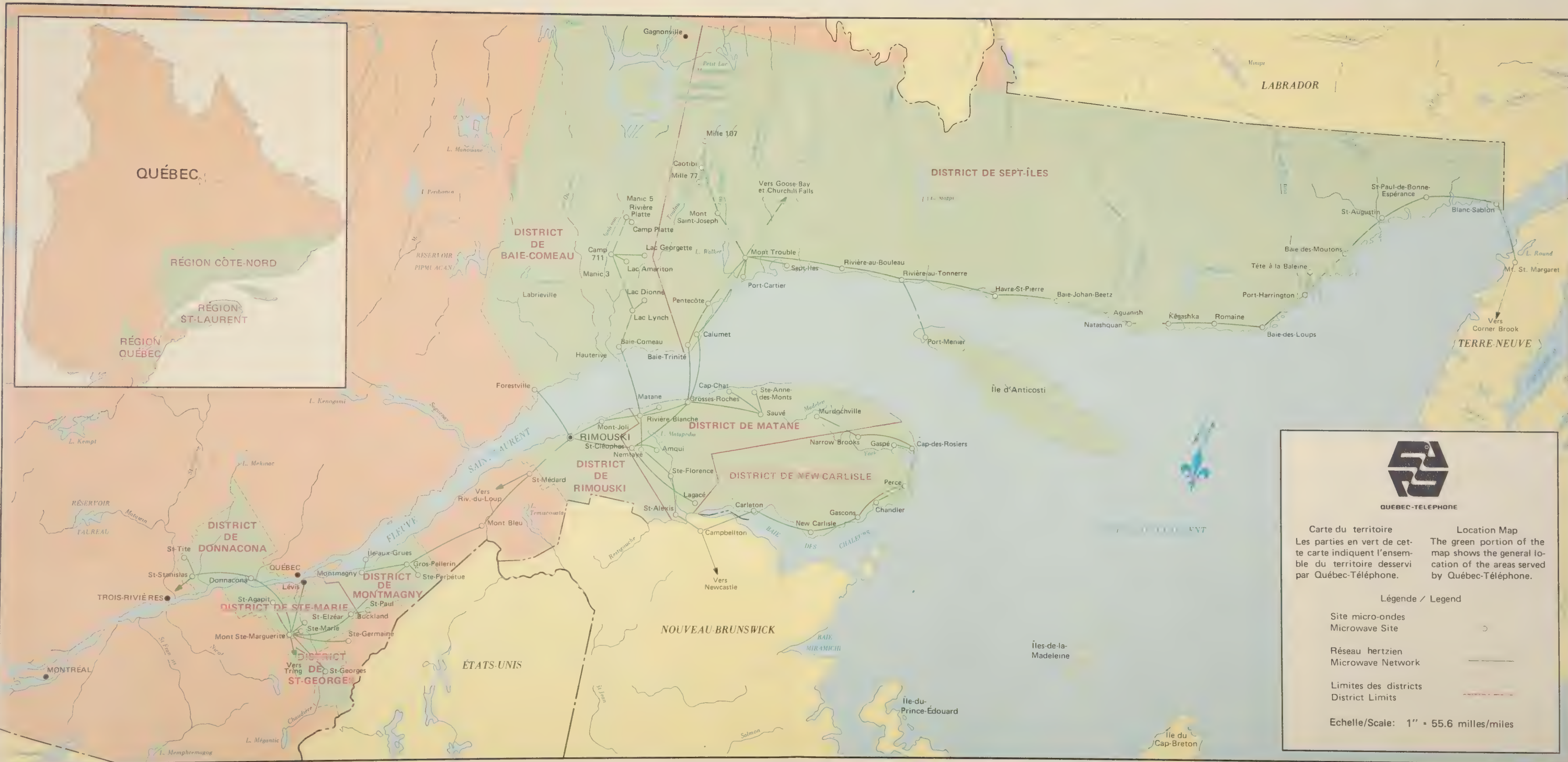
¹ Excluding extraordinary item

² Year-end

³ Yearly average

⁴ Valuation day value (December 22, 1971): \$13.75 per share





QUÉBEC-TELEPHONE

Carte du territoire
Les parties en vert de cette carte indiquent l'ensemble du territoire desservi par Québec-Téléphone.

Location Map
The green portion of the map shows the general location of the areas served by Québec-Téléphone.

Légende / Legend

- Site micro-ondes
Microwave Site
- Réseau hertzien
Microwave Network
- Limites des districts
District Limits
- Echelle/Scale: 1" = 55.6 milles/miles

General Information

Incorporated under the laws of the Province of Québec by Letters Patent dated June 7, 1927 and subject to the regulation of the Public Service Board of Québec.

Major shareholder

As at December 31, 1975, Anglo-Canadian Telephone Company, 715 Victoria Square, Montréal, Québec, owned 1,280,671 Common shares of Québec-Téléphone, or 54.4% of outstanding Common shares.

Listing of shares

Common Shares, 4¾% Preferred Shares, 1965 Series, 7¾% Preferred Shares, Series 1973 and 6.20% Subordinate Preferred Shares, Series A are listed on the Montreal and Toronto Stock Exchanges. The 5% Preferred Shares, 1955 and 1956 Series, are listed on the Montreal Stock Exchange.

Stock transfer offices

General Trust of Canada, 10 St. James Street, West, Montréal, H2Y 1L4, is the Registrar and Transfer Agent for all classes of shares of the Company. The Royal Trust Company is the Co-Transfer Agent and Registrar for the 4¾% Preferred Shares, 1965 Series, at its offices in Toronto and Winnipeg, and is the Co-Transfer Agent and Registrar for the 7¾% Preferred Shares Series 1973, for the 6.20% Subordinate Preferred Shares, Series A and for the Company's Common Shares at its offices in Toronto, Winnipeg, Regina, Saint John, N.B. and Vancouver.

Trustee for bonds

General Trust of Canada, 10 St. James Street, West, Montreal H2Y 1L4.

Bankers

Bank Canadian National
Bank of Montreal

Subsidiary

The Bonaventure and Gaspé Telephone Company, Limited,
New Carlisle, Bonaventure County,
Québec.

Annual meeting

Your Directors appreciate the interest shown by shareholders who attend the Annual General Meetings and who participate in the discussion of the Company's affairs. This year the meeting will be held on April 29, in Rimouski, Québec. All shareholders who find it possible to attend are urged to do so.

Board of directors

Hervé Belzile
President
Alliance Mutual Life
Insurance Company

Roger Charbonneau*
President
Anglo-French Laboratories
Company, Limited

Roger DeSerres*
President
Omer DeSerres Ltée

John J. Douglas
Executive Vice President — Finance
General Telephone
& Electronics Corporation

Charles G. Farris
Executive Vice President —
Telephone Operating Group
General Telephone
& Electronics Corporation

Charles Mercier*
Vice President — Operations
Québec-Téléphone

Bernard Panet-Raymond
Executive Vice President
Q.N.S. Paper Company Limited

Claude Pratte, Q.C.
Advocate

Raymond Sirois**
President and Chairman of the Board
Québec-Téléphone

Julien Thuot*
First Vice President
Vice President — Corporate Planning
and Treasurer
Québec-Téléphone

Antoine Turmel*
Chairman and Chief
Executive Officer
Provigo Inc.

** president of the executive committee

* member of the executive committee

Officers

Raymond Sirois
President and Chief
Executive Officer

Julien Thuot
First Vice President
Vice President —
Corporate Planning and Treasurer

Charles Mercier
Vice President — Operations

Jean-Marc Tremblay
Vice President — General Counsel
and Personnel, Secretary

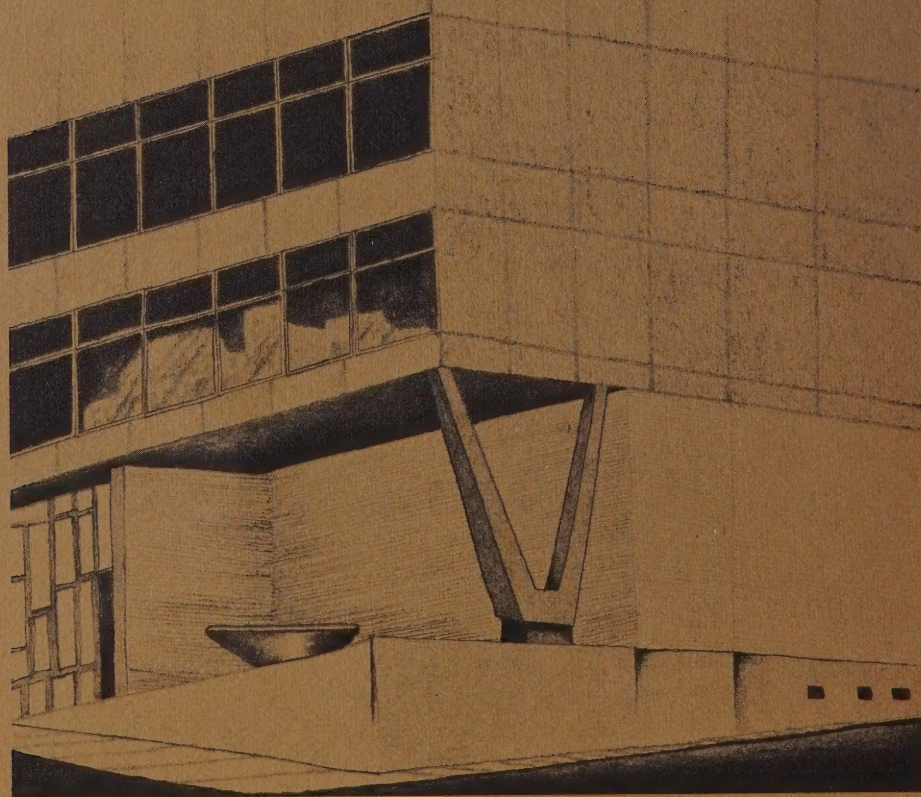
Henri Dionne
Vice President — Public Relations

Simon Soucy
Assistant Treasurer

Ghislain Bouchard
Assistant Secretary



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6, rue Saint-Jean, Rimouski, Québec, G5L 7E4



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